HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Montréal CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2017

Figure 1

Source: CMHC
(F): CMHC Forecast

Figure 2

Source: QFREB by Centris® system
(F): CMHC Forecast

Highlights[1]

- Supported by rental and condominium housing construction, starts in the Montréal census metropolitan area (CMA) will be on a slight upward trend until 2019, ranging between 19,000 and 22,000 units in 2018 and between 19,000 and 23,000 units in 2019.
- Resale market transactions will also be on an upward trend until 2019, mainly thanks to the expected growth in full-time employment among people aged 25 to 44. Rising demand, combined with declining supply, will cause market conditions to tighten and favour sellers.
- From 2017 to 2019, with rental housing supply outpacing demand, the vacancy rate in the Montréal CMA will rise slightly each year, reaching 4.4% in 2019. In fact, some 4,000 new apartments will be added to the rental housing stock annually until 2019, or about twice as many as in 2016.

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

Canada

CMHC SCHL

New home market: multi-unit housing construction to stay strong until 2019

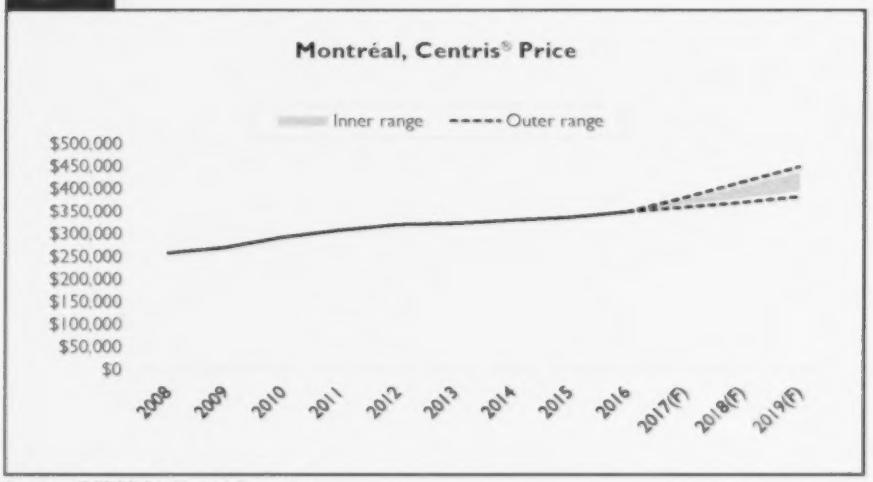
Supported by rental and condominium housing construction, starts in the Montréal CMA[2] will be on a slight upward trend until 2019, ranging between 19,000 and 22,000 units in 2018 and between 19,000 and 23,000 units in 2019.

On the rental market, builders will continue to focus on seniors' housing construction, given the aging of the population. As well, conventional rental housing starts will remain at high levels over the next two years. A portion of these projects will in fact be seeking to attract baby boomer clients, some of whom are effectively reaching a time in their life where they may decide to sell their property and change housing tenures.

In the condominium segment, construction will increase thanks to a strong demand, which will be supported by employment growth, and also to significantly lower inventories of new and existing condominiums on the market.

As for new single-detached houses, the tighter conditions on the existing single-family home market will lead to an increase in starts. However, the potential for construction will remain limited, particularly on account of constraints related to urban densification.

Figure 3



Source: QFREB by Centris® system
(F): CMHC Forecast

Existing home market: market conditions to tighten from now until 2019

Resale market transactions in Montréal[3] will also be on an upward trend from 2017 to 2019. The surge in demand will result mainly from the expected growth in full-time employment among people aged 25 to 44, a group that accounts for a large proportion of the homebuyer pool[4]. However, the anticipated rise in mortgage rates will limit this increase over the forecast horizon.

Rising demand, combined with declining supply[5], will cause market conditions to tighten again and become increasingly favourable to sellers. Consequently, the growth in the average price of homes over the forecast horizon should be definitely higher than the annual average of the last few years[6], which was about 2.5%.

Market conditions will however vary depending on the market segments. The single-family home and plex markets should remain very favourable to sellers from now until 2019, which will increase the upward pressure on prices for these types of homes, while the condominium market will be on the fence between a balanced market and a sellers' market over that period.

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[2] It should be noted that the municipalities of Saint-Jean-sur-Richelieu and Saint-Lin–Laurentides were added to the Montréal CMA in 2017. Starts forecasts for 2017 and beyond take into account the addition of these municipalities; however, the data prior to 2017 were not adjusted.

[3] Contrary to the new home market data, the resale market data produced by the QFREB for the Montréal CMA do not cover the municipalities of Saint-Jean-sur-Richelieu and Saint-Lin–Laurentides.

[4] More specifically, 60%. Source: Statistics Canada, 2011 National Household Survey; CMHC, compilation and calculations.

[5] The decline in supply has been due to the growth in sales, which has lowered the number of active listings, and also to the decrease in new listings.

[6] Average annual growth rate from 2011 to 2016.

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Vacancy rate to rise slightly from now until 2019

From 2017 to 2019, with rental housing supply outpacing demand, the vacancy rate in the Montréal CMA will rise slightly each year, reaching 4.4% in 2019.

Demand will be supported by slightly higher net migration over the forecast horizon—a level that could be revised upwards depending on the refugee situation in Montréal. However, demand for conventional rental units will be curbed by competition from rental condominiums.

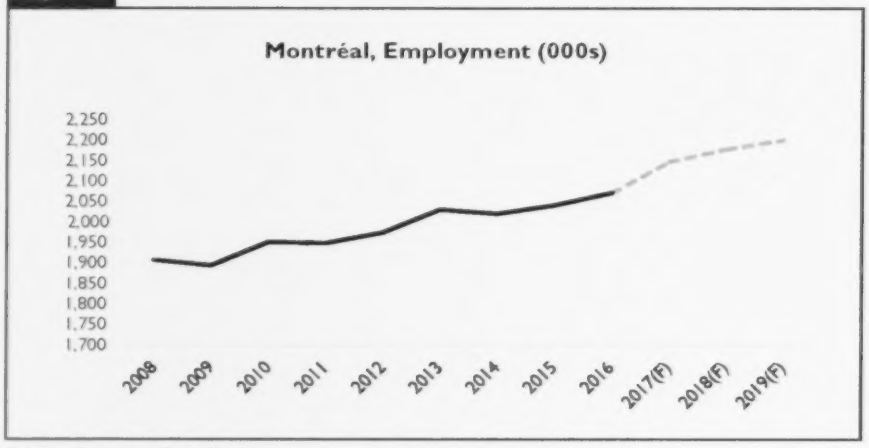
As for supply, some 4,000 new apartments will be added to the rental housing stock annually until 2019, or about twice as many as in 2016. These high levels will result from the large numbers of conventional rental housing starts over that period.

Montréal's strong economy to support housing demand

Economic activity in Quebec has shown stronger-than-expected growth since the beginning of 2017[7] thanks to an overall high domestic demand. Over the coming years, the Montréal area economy will continue to be stimulated by current and upcoming major infrastructure projects, such as the Réseau électrique métropolitain (REM).

The strength of Montréal's economy has also been reflected in the significant growth of the job market in recent quarters, particularly observed in full-time employment among people aged 25 to 44. Total employment in the CMA will post a gain of 3.7% in 2017 and will continue to grow in 2018 and 2019, albeit at a slower pace.

Figure 4



Source: Statistics Canada
(F): CMHC Forecast

After recording a strong increase in 2016[8], net migration in the CMA will continue to rise slightly from now until 2019. This growth will be fuelled mainly by immigrants arriving in Montréal and, to a lesser extent, by a smaller interprovincial deficit resulting from the current appeal of the labour market.

Forecast risks

Housing demand could be stronger than anticipated if employment growth is higher than our forecast scenario. For example, the REM project could have a significant positive impact on Montréal's economy but, at this time, it is difficult to say when exactly this impact will occur.

Other factors could also have an impact on housing demand, but a negative one, including a greater-than-expected rise in mortgage interest rates. Also, the uncertainty with regard to possible changes to the terms of trade with the United States could affect exports and limit economic growth more significantly.

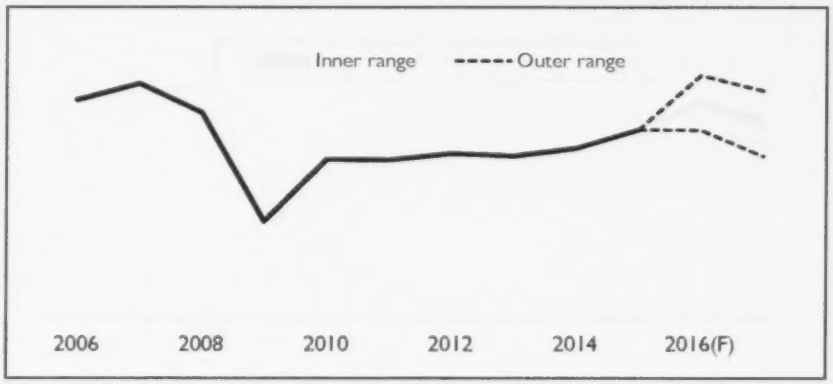
[7] Growth rate of 2.7% for the period from January to June 2017 (measured by the real gross domestic product at market prices).
[8] Net migration rose from 14,000 people in 2015 to 27,000 in 2016.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary Montréal CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	2,677	2,402	2,499	2,450	2,750	2,400	3,000	2,400	3,200
Multiples	15,995	16,342	15,335	17,050	17,750	16,600	19,000	16,600	19,800
Starts - Total	18,672	18,744	17,834	19,500	20,500	19,000	22,000	19,000	23,000
Resale Market									
Centris® Sales	35,725	37,888	39,866	42,300	43,600	42,100	46,800	42,200	48,700
Centris® Average Price($)	330,996	337,267	349,515	365,500	375,000	379,500	406,000	394,500	437,800
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	3.4	4.0	3.9	4.1	4.3	4.4
Two-bedroom Average Rent (October)($)	739	760	791	815	840	860
Economic Overview						
Population	4,019,264	4,049,632	4,093,767	4,135,000	4,175,000	4,215,000
Annual Employment Level	2,019,500	2,040,900	2,071,000	2,147,600	2,178,400	2,200,600

QFREB by Centris®. The Centris® system contains all the listings of Québec real estate board.

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

it is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. Centris®. CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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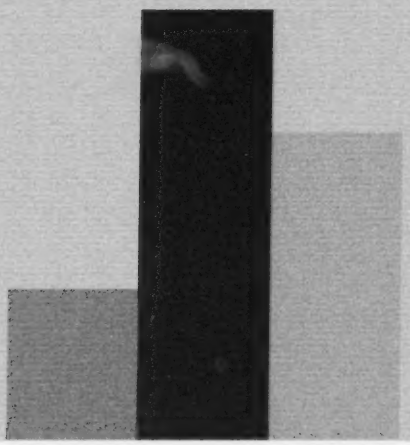

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